

CalPERS Launches Plan to Pre-fund Retiree Health Benefits

The California Public Employees' Retirement System (CalPERS) has announced the creation of a new trust fund. Employers who contract with CalPERS for employee health benefits may now "prefund" the future cost of their retiree health insurance and other post-employment benefits (OPEB).

With prefunding, employers make periodic payments into the trust fund to partially or completely fund future OPEB obligations. CalPERS has identified the following benefits for its program:

- Reduces employer costs with earnings from the trust fund.
- Reduces annual expenses and the unfunded liability for OPEB costs.
- May result in a higher bond rating.
- Improves financial security for active workers and retirees.

For more information on the new CalPERS program click on the attached PDF file.

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[About CalPERS](#) > [Press Room](#) > [2007 Press Releases](#) > [February 2007 Press Releases](#) > **CalPERS Launches Prefunding Plan for Retiree Health Benefits**

Press Release

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Contact: Edward Fong or Pat Macht
Office of Public Affairs
(916) 795-3991

CalPERS Launches Prefunding Plan for Retiree Health Benefits

SACRAMENTO, CA – The California Public Employees' Retirement System (CalPERS) today announced the creation of a new trust fund that allows public employers that contract with CalPERS for employee health benefits to prefund the future cost of their retiree health insurance benefits and other post-employment benefits (OPEB).

Called the California Employers' Retiree Benefit Trust Fund, the prefunding plan allows participating employers to make regular periodic contributions into the trust fund. The contributions are invested so that they will grow. In the future, participating employers will be able to use investment earnings to pay for retiree health benefits, similar to the CalPERS pension plan in which three out of four dollars paid for retirement benefits come from investment earnings instead of current taxpayer dollars and employer contributions.

"Public employers recognize that prefunding their future retiree health benefit costs is responsible financial management," said CalPERS Board President Rob Feckner. "CalPERS has a proven track record of outstanding investment returns at very low cost."

In addition to health insurance, other post-employment benefits can include dental, vision, hearing, and other health-related benefits. They can also include life, disability, and long-term care insurance.

A new government accounting rule called Governmental Accounting Standards Board Statement 45 (GASB 45) requires government employers to begin reporting future OPEB liabilities in their financial statements.

Unlike retirement benefits, which are prefunded, most public employers currently pay their retiree health insurance premiums annually, referred to as "pay-as-you-go." Prefunding these costs allows employers to assume higher investment returns, which results in lower annual expenses and a smaller unfunded liability for OPEB costs.

"There is no question that prefunding future retiree health benefit costs offers many benefits to public employers," said George Diehr, Chair of the CalPERS Board's Health Benefits Committee. "The CalPERS prefunding plan offers expertise, experience, and excellent value to our employers."

With prefunding, employers make periodic payments into the trust fund to partially or completely fund future OPEB obligations, which produces many benefits:

- Earnings from trust fund investments reduce employer costs.
- Employer investment rate assumptions, known as discount rate assumptions, will be higher, reducing annual expenses and the unfunded liability for OPEB costs.
- Prevents an employer's OPEB obligation from becoming a significant liability on balance sheets.
- Lower unfunded liability may result in a higher bond rating.
- Improves financial security for active workers and retirees.

To participate in the California Employers' Retiree Benefit Trust Fund, employers must take several steps:

- Certify that their agency is eligible under applicable laws and regulations.
- Obtain an actuarial valuation prepared in accordance with CalPERS guidelines.
- Have the agency's governing body adopt the CalPERS agreement to prefund OPEB costs.
- Submit an original signed agreement, actuarial valuation report, certification that the actuarial valuation satisfies CalPERS requirements, and a summary of actuarial information on a diskette or CD to CalPERS for approval.

The trust fund officially launches on March 1, 2007. Detailed information and the necessary forms will also be posted on the CalPERS Web site at www.calpers.ca.gov on that date.

CalPERS, with \$230 billion in assets, is the largest public pension fund in the U.S. It administers retirement and health benefits for 1.5

million active and retired California State, school, and local government employees and their families.

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